

FILE COPY



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



DARLENE GREEN
Comptroller

Internal Audit Section

Carnahan Courthouse Building
1114 Market St., Room 608
St. Louis, Missouri 63101
(314) 622-4723
Fax: (314) 613-3004

December 27, 2004

Marjorie L. Melton, P.E., President
Board of Public Service
City Hall, Room 301
1200 Market Street
St. Louis, MO 63103

RE: Second Follow-Up Review of Sverdrup, Parsons, & Kwame (SPK) Joint Venture
Professional Service Agreement, PSA 895 (Project #2004-F12)

Dear Ms. Melton:

We have conducted a limited second follow-up review on the Sverdrup, Parsons & Kwame (SPK) Joint Venture Professional Service Agreement review report issued December 21, 2001. This follow-up review was made under authorization contained in Article XV, Section 2 of the Charter, City of St. Louis, as revised, and conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*. A limited follow-up review does not necessarily involve detailed testing or verification, but instead relies on communication with department management and staff, as well as limited observations. The purpose of this follow-up review is to determine the status of the unresolved observations and recommendations made in the report issued December 21, 2001 as of May 31, 2004.

We determined that the following observation has been **resolved**:

1. Overhead Application Error (Observation #1, Original Report) – The overhead application error in the original contract was corrected in the Annual Service Order (ASO) #8, amendment to the contract the Joint Venture submitted on May 1, 2003. This error enabled the Joint Venture to bill for the salary related expenses (SRE) twice, once as a separate expense item and then as a component of the overhead rate applied to the payroll cost. The amendment to the contract states that effective with ASO #8 the direct labor cost will be calculated based on the formula that will not add SRE to the labor cost when calculating the general & administrative overhead rate.

We determined that the following observation has **not been resolved**:

2. Opportunity to Implement Salary Related Expenses (SRE) and Overhead (OH) Rates Review Procedures, (Observation #2, Original report) – The City's Board of Public Service has not as yet established and implemented procedures to review and approve the Joint Venture's SRE and OH rates submitted on a prospective basis. In addition, PMO has not established procedures for the Joint Venture partners to submit the final statements of actual SRE and OH Overhead costs as they become available in order to make appropriate adjustments to the prospectively determined Rates when appropriate.

We met with the BPS management on October 7, 2004 to discuss our determination of the status of each observation and offered them an opportunity to provide written responses to this report. Management provided written responses to us on December 10, 2004 which have been attached to this letter.

If you have any questions, please contact me at (314) 613-7410.

Respectfully,



Mohammad H. Adil, CPA
Internal Audit Supervisor

Attachment

CC: Honorable Darlene Green, Comptroller
Rita Kirkland, Director of Operations, Office of the Mayor
Marie Jeffries, Executive Assistant, Budget Division
Colonel Leonard Griggs Jr., Director of Airports
Eugene Kuelker, Contracts Manager, Board of Public Service
Robert J. Dopuch, Vice President, Unison Maximus

City of St. Louis

FRANCIS G. SLAY

MAYOR

DEPARTMENT OF THE PRESIDENT BOARD OF PUBLIC SERVICE

305 CITY HALL

ST. LOUIS, MISSOURI 63103

(314) 622-3535

December 9, 2004

Mr. Mohammad Adil, CPA
Audit Supervisor
Internal Audit Section
Comptroller's Office
1114 Market Street, Room 608
St. Louis, Mo. 63101

Re: Audit Finding for PSA 895 – SPK Joint Venture

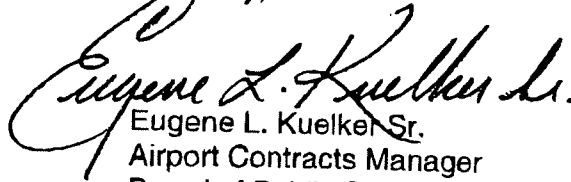
Mr. Adil:

At your request, please consider this letter the managements response to the unresolved audit finding No.2, "Opportunity to Implement Salary Related Expenses (SRE) and Overhead (OH) Rates Review Procedures" on the above referenced PSA.

In an earlier meeting, it was agreed to by BPS to submit the SRE and GA rates for each consultant listed on the above referenced PSA to the Internal Audit section to be reviewed and approved before the rates were accepted and incorporated into the next ASO. I thought we had complied with this finding by submitting the rates for the latest ASO directly to the Internal Audit section for review and approval last May. You have requested that our request to review the rates be sent to the Comptroller who will forward the request to you. This seems to be a technicality in how you receive the rates, but we will comply.

If you have any questions, please contact me at 551-5087.

Sincerely,


Eugene L. Kuelker Sr.
Airport Contracts Manager
Board of Public Service

CC: M. Melton
J. Kuss
B. Behan
D. Green
T. Bozzo
R. Dopuch